

September 11, 2001

**TO:** Senator Snyder, Chair  
Senator Dan McDonald  
Representative Cairnes  
Representative Morris  
Fred Kiga, Director, DOR  
Mary Brown, Director, OFM

**FROM:** Chang Mook Sohn, Executive Director  
Office of the Forecast Council

**SUBJECT:** SEPTEMBER 10, 2001 REVENUE COLLECTION REPORT

Despite a sluggish economy, General Fund-State collections were \$3.3 million higher than expected in the August 11 - September 10 collection period. Revenue Act (retail sales, use, business and occupation and public utility taxes) and estate tax receipts accounted for the higher than expected collections this month. With this month's positive variance, the cumulative shortfall in the three months since the June forecast now totals - \$11.9 million. Higher than expected collections this month is not necessarily a sign that the economy has improved. Some of this month's higher than expected revenue was due to an administrative change (changing the reporting frequency of some taxpayers from quarterly to monthly), not due to stronger than expected economic activity. Also, the \$11.9 million shortfall cumulatively since June would be more than twice as large had not we received two extraordinarily large use tax payments last month.

Revenue Act sources were \$4.4 million above the estimate in the current period (primarily July 2001 business activity) but most of this was due to more taxpayers filing monthly than assumed in the forecast. Revenue Act receipts this period were up 2.8 percent from a year-ago, after adjusting for special factors. This is slightly better than last month's 2.3 percent increase and considerably better than the 2.2 percent decline two months ago. Nevertheless, Revenue Act receipts are up just 1.3 percent in the last six months (February – July), after growing 4.6 percent the last six months of calendar year 2000. This sharp deceleration reflects the weaker national and state economies. Nationally, real GDP grew only 0.2 percent in the second quarter of 2001. At the state level, wage and salary employment declined in the second quarter of 2001, the first decline since 1993. The economic news is not getting any better. The U.S. unemployment rate increased from 4.5 percent in July to 4.9 percent in August. Although consumer spending is still holding up, the hopes for a quick rebound in economic activity are fading fast.

Preliminary data on taxes paid during the August 11 to September 10 collection period again shows weakness in most sectors of the economy. The construction, manufacturing and finance, insurance and real estate sectors reported year over year declines in tax payments. The retail trade sector was up only 1.1 percent from the year-ago level. Within retailing both the auto and furniture and household appliance sectors were below year-ago levels. There were a couple of bright spots. In the retailing sector, general merchandise stores reported a 7.5 percent increase in tax payments and the service sector also reported a nearly 7.0 percent increase this month.

Other General Fund taxes collected by the Department of Revenue were \$1.0 million below the estimate for the month. A shortfall in property tax (state levy), cigarette tax and "other" revenue more than offset higher than expected timber excise tax and estate tax revenue. With this month's shortfall, non-revenue act taxes administered and collected by the Department of Revenue are now \$11.8 million below the estimate in the three months since June. Most of this shortfall is due to weakness in the property, the estate, and the real estate excise taxes. All three of these revenue sources are quite volatile on a monthly basis and some of this shortfall may be de offset later in the year, especially in the case of the property tax shortfall.

Although down \$1.3 million cumulatively since June, real estate payments were close to the estimate for the month. Statewide taxable real estate activity increased 2.4 percent in July (July closings reflecting payments to the state in August). Activity increased 3.6 percent last month and is up 3.5 percent for the first seven months of calendar year 2001. The number of transactions increased 12.4 percent in July and are up 3.7 percent for the year-to-date. The taxable value per transaction was down 8.9 percent in July and is 0.6 percent down for the year-to-date. Relatively low mortgage rates continue to fuel real estate activity outside King County. Taxable real estate activity outside King County was up 10.7 percent in July and is up 13.4 percent for the year-to-date. Activity in King County is down 8.2 percent from a year-ago in July and is down 7.9 percent for the first seven months of calendar 2001.

Department of Licensing General Fund collections \$0.1 million less than the estimate in August and are virtually right on the estimate for the three months since the last forecast. As of July 1, 2001 lottery transfers are no longer deposited into the General Fund hence are no longer included in this port.

The attached Table 1 provides a comparison of collections with estimates for the current midmonth period, August 11 - September 10, and cumulatively since our last forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's midmonth report. Note, beginning in fiscal 2002, part of the state portion of the property tax (state levy) is transferred to the Student Achievement Account as a result of Initiative 728. The collection report shows the total state property tax estimate/actual for August 2001, as well as the estimate/actual for the transfer to the Student Achievement Account and the net to the General Fund. Both the Department of Revenue total and the General Fund State total reflect the General Fund portion of the property tax after the transfer.

CMS:cg

Attachments

**TABLE 1**  
**Revenue Collection Report**  
**September 10, 2001 Collections Compared to the June 2001 Forecast**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
<b>August 11 - September 10, 2001</b>				
Department of Revenue-Total	\$569,837	\$573,176	\$3,339	0.6%
Revenue Act** (1)	630,833	635,221	4,389	0.7%
Non-Revenue Act(2)	(60,996)	(62,045)	(1,049)	1.7%
Liquor Sales/Liter	7,217	7,342	125	1.7%
Cigarette	5,904	5,489	(415)	-7.0%
Property (State School Levy)- net after transfer	(125,579)	(126,534)	(954)	0.8%
Property tax collections	7,428	6,588	(839)	-11.3%
transfer to the Student Acheivemnt Acct.	(133,007)	(133,122)	(115)	0.1%
Estate	5,060	6,136	1,076	21.3%
Real Estate Excise	36,507	36,594	87	0.2%
Timber (state share)	2,261	2,433	172	7.6%
Other	7,635	6,494	(1,141)	-14.9%
Department of Licensing (2)	1,248	1,170	(78)	-6.2%
<b>Total General Fund-State***</b>	<b>\$571,085</b>	<b>\$574,347</b>	<b>\$3,262</b>	<b>0.6%</b>
<b>Cumulative Variance Since the June Forecast (June 11 - September 10, 2001)3</b>				
Department of Revenue-Total	\$2,511,298	\$2,498,957	(12,341)	-0.5%
Revenue Act** (3)	2,084,169	2,083,664	(506)	-0.0%
Non-Revenue Act(4)	427,129	415,294	(11,835)	-2.8%
Liquor Sales/Liter	21,290	21,692	402	1.9%
Cigarette	17,775	17,769	(6)	-0.0%
Property (State School Levy)-net after transfer	209,152	201,128	(8,024)	-3.8%
Property tax collections	342,159	334,250	(7,909)	-2.3%
transfer to the Student Acheivemnt Acct.	(133,007)	(133,122)	(115)	0.1%
Estate	21,863	16,862	(5,002)	-22.9%
Real Estate Excise	114,885	113,538	(1,347)	-1.2%
Timber (state share)	2,261	2,433	172	NA
Other	39,903	41,872	1,969	4.9%
Department of Licensing (4)	9,466	9,471	4	0.0%
Lottery (5)	466	466	0	0.0%
<b>Total General Fund-State***</b>	<b>\$2,520,765</b>	<b>\$2,508,894</b>	<b>(\$11,871)</b>	<b>-0.5%</b>

1 Collections August 11 - September 10, 2001. Collections primarily reflect July 2001 activity of monthly taxpayers.

2 August 1-31, 2001 collections.

3 Cumulative collections, estimates and variance since the June 2001 forecast; (June 11- September 10, 2001) and revisions to history.

4 Cumulative collections, estimates and variance since the June 2001 forecast; ( June - August 2001) and revisions to history.)

5 As of 7/1/01 lottery transfers are no longer part of the General Fund.;the reported variance reflects estimates/collections thru 6/30/01.

\* Based on the June 2001 economic and revenue forecast.

\*\*The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

\*\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue, the Department of Licensing and the Lottery Commission (util July 2001), about 97% of total General Fund-State.

Office of the Forecast Council

**TABLE 2**  
**August 10, 2001 Collection Report - Revised Data**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
<b>July 11 - August 10, 2001</b>				
Department of Revenue-Total	\$906,528	\$906,528	(\$0)	-0.0%
Revenue Act (1)	824,717	824,717	0	0.0%
Non-Revenue Act(2)	81,811	81,811	(0)	-0.0%
Liquor Sales/Liter	6,995	6,995	0	0.0%
Cigarette	6,456	6,456	0	0.0%
Property (State School Levy)	9,608	9,608	0	0.0%
Estate	4,784	4,784	(0)	-0.0%
Real Estate Excise	41,249	41,249	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	12,719	12,719	(0)	-0.0%
Department of Licensing (2)	2,616	2,616	0	0.0%
Lottery (2)	0	0	0	ERR
Total General Fund-State***	\$909,144	\$909,144	(\$0)	-0.0%

**Cumulative Receipts: June 11 - August 10, 2001 & Revisions to History**

Department of Revenue-Total	1,925,786	\$1,925,781	(\$5)	-0.0%
Revenue Act (3)	1,448,448	1,448,442	(6)	-0.0%
Non-Revenue Act(4)	477,339	477,339	(0)	-0.0%
Liquor Sales/Liter	14,349	14,349	0	0.0%
Cigarette	12,280	12,280	(0)	-0.0%
Property (State School Levy)	327,661	327,661	0	0.0%
Estate	10,726	10,726	(0)	-0.0%
Real Estate Excise	76,944	76,944	0	0.0%
Timber (state share)	0	0	0	NA
Other	35,378	35,378	(0)	-0.0%
Department of Licensing (4)	8,300	8,300	0	0.0%
Lottery (4)	466	466	0	0.0%
<b>Total General Fund-State***</b>	<b>1,934,552</b>	<b>\$1,934,547</b>	<b>(\$5)</b>	<b>-0.0%</b>

P-Preliminary. Reported in the August 10, 2001 collection report.

R Revised data.

1 Collections July 11 - August 10, 2001. Collections primarily reflect June 2001 business activity of monthly taxpayers and April-June activity of quaterly filers.

2 July 1-30, 2001 collections.

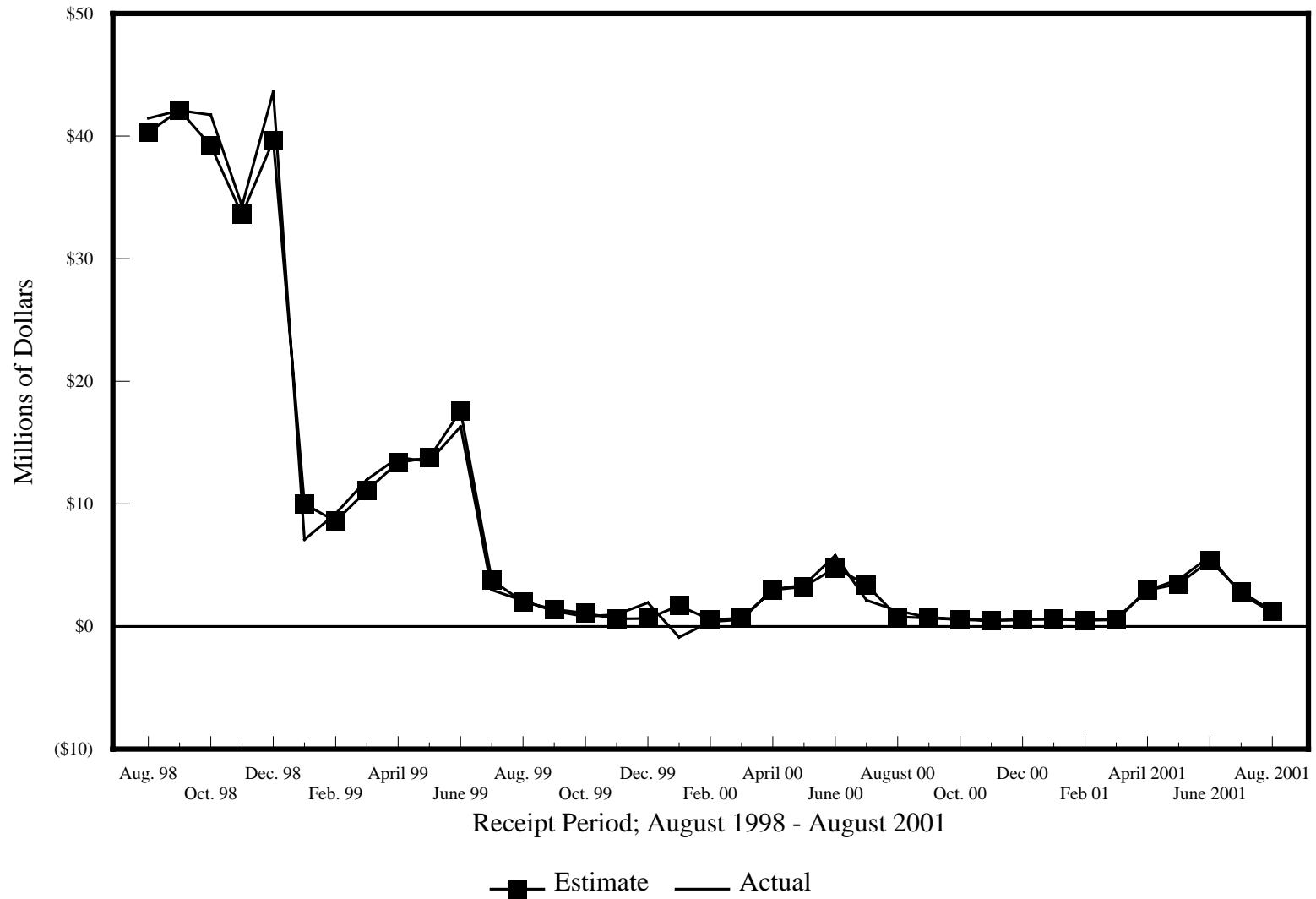
3 Cumulative variance for since the June 2001 forecast: June 11 - August 10,2001 & revisions to history.

4 Cumulative variance: since the March 2001 forecast (June and July 2001 ) & revisions to history.

\* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

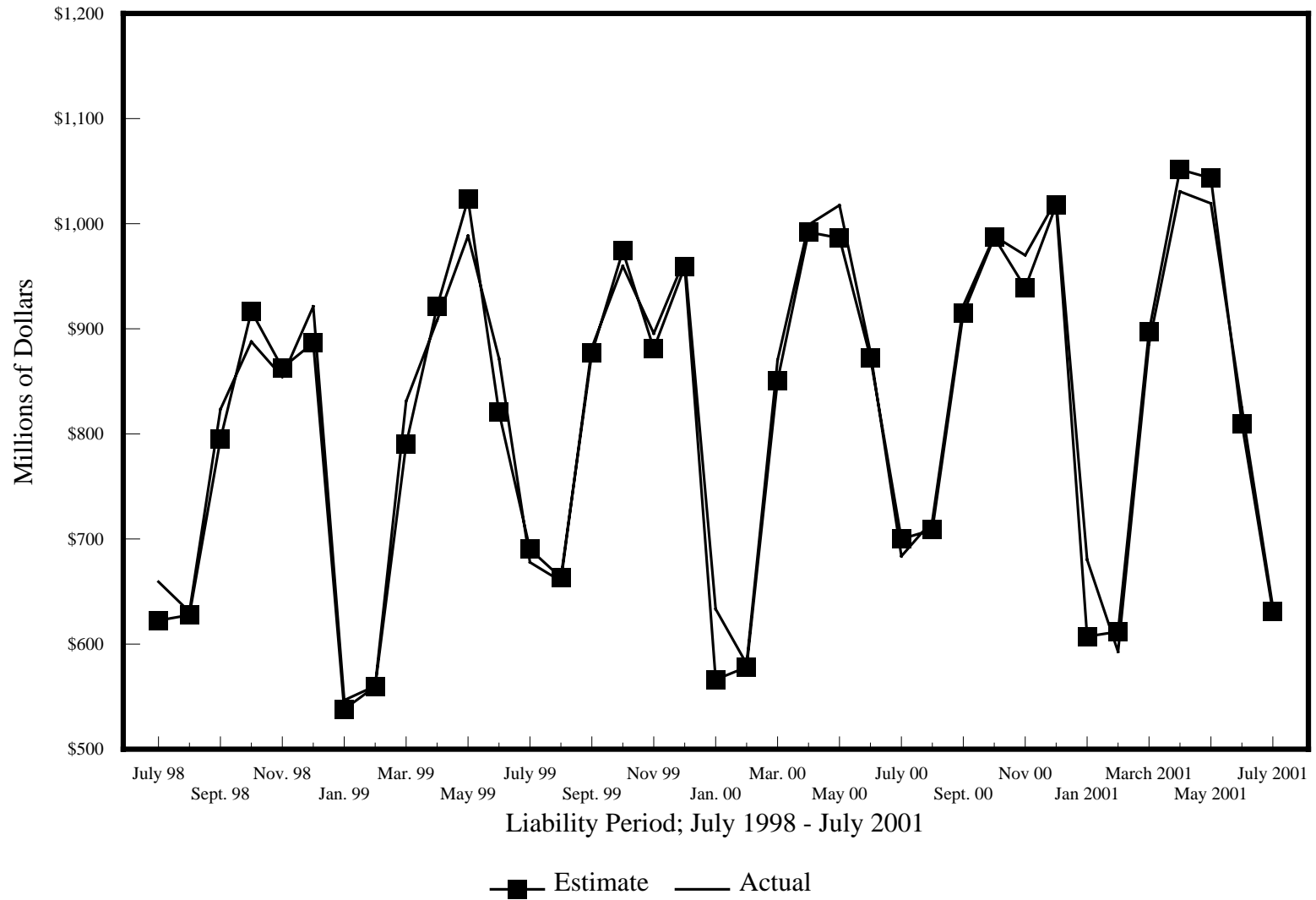
# Department of Licensing General Fund-State, Actual vs. Estimate

August 98 to August 2001



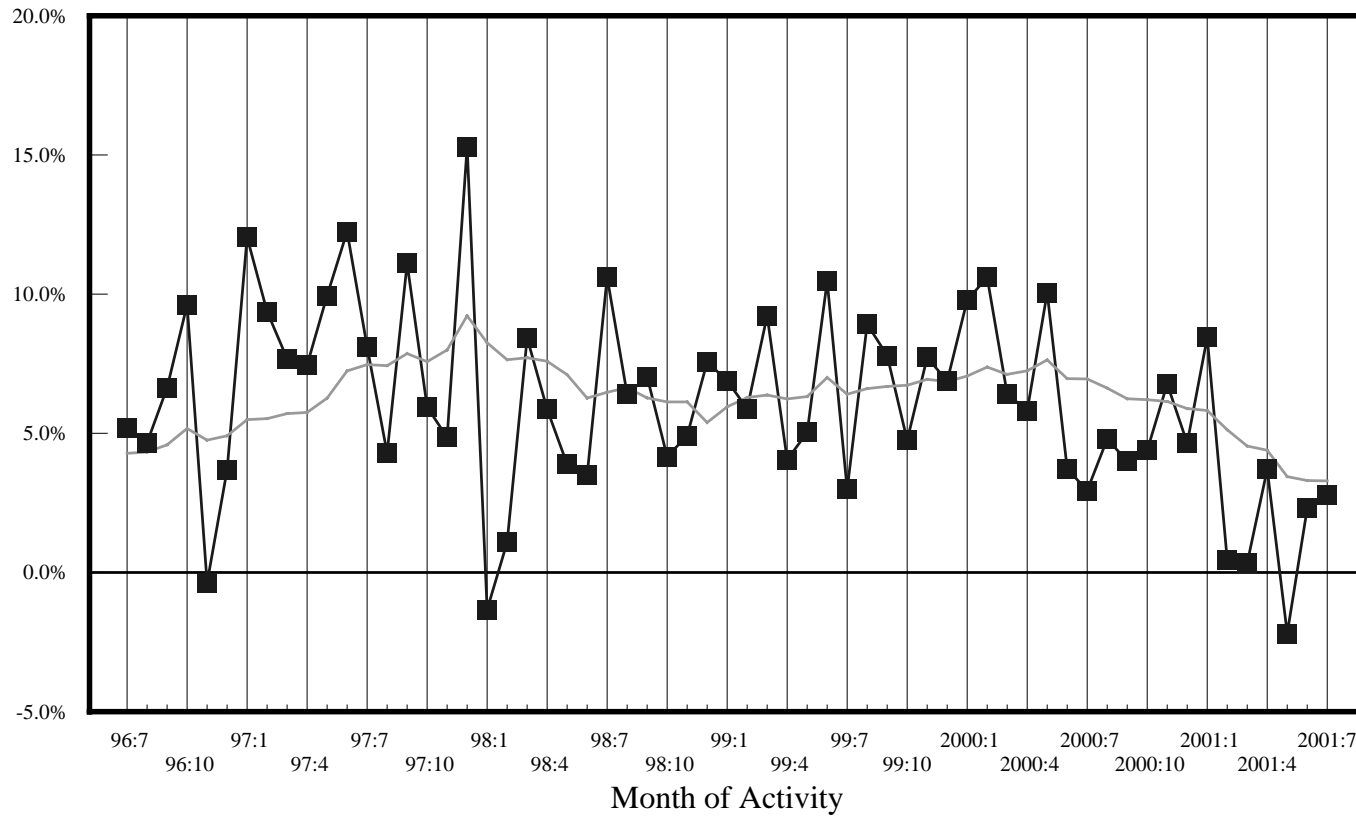
# Department of Revenue: General Fund-State, Actual vs. Estimate

July 98 to July 2001



# Revenue Act Net Collections\*

Year-over-Year Percent Change



■ %CH from year-ago month

— %change: 12 month moving average

\*Adjusted for legislation, large refunds & audits, etc.